

Message Text

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ACTION EA-09

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SUBJECT: INDONESIAN LNG AND THE FPC

1. SUMMARY: VISIT TO INDONESIA BY SPECIAL GAO AUDIT TEAM
EXAMINING FPC APPROVAL PROCESS FOR LNG IMPORTED INTO US PRO-
DUCED EXPRESSIONS OF CONCERN BY INDONESIANS OVER DELAYS IN
OBTAINING NECESSARY US FEDERAL AND STATE CERTIFICATION. WHILE
GOI STILL REMAINS COMMITTED TO PACIFIC LIGHTING SALES CONTRACT,
THERE APPEARS TO BE LIMIT TO THEIR PATIENCE. ACCORDING TO
PERTAMINA, JAPANESE HAVE ALREADY EXPRESSED "INFORMAL" INTEREST
IN BUYING ADDITIONAL LNG IF WEST COAST DEAL IS NOT APPROVED.
PERTAMINA ESTIMATES DELAYS HAVE CAUSED PROJECT COSTS FOR GAS
TRAINS FOUR, FIVE AND SIX TO ESCALATE BY \$200 MILLION SINCE
1975. INDUSTRY SOURCES SPECULATED THAT REPLACEMENT OF PACIFIC
LIGHTING WITH JAPANESE BUYERS COULD RESULT IN LOST US EXPORTS
OF POSSIBLY SEVERAL HUNDRED MILLION DOLLARS. END SUMMARY.

2. SPECIAL GAO AUDIT TEAM VISITED INDONESIA EARLIER
THIS MONTH TO CONDUCT REVIEW OF FPC APPROVAL PROCESS FOR
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LIQUEFIED NATURAL GAS (LNG) BEING IMPORTED INTO US.
GAO SELECTED PACIFIC LIGHTING'S APPLICATION TO IMPORT
3.5 MILLION TONS/YEAR OF LNG (546,000 MMSCF/DAY) FROM
MOBIL/PERTAMINA ARUN PROJETO TO WEST COAST AS CASE STUDY.
CHIEF OBJECTIVE WAS TO EXAMINE PROBLEMS CAUSED BY DELAYS
IN SECURING FPC CERTIFICATION. TEAM MEMBERS MET WITH
PERTAMINA PRESIDENT DIRECTOR HARYONO, OFFICIALS FROM

DEPT. OF MINING AND PERTAMINA AND MOBIL EXECUTIVES.
VISIT TO ARUN GAS FIELD AND PLANT SITE ALSO INCLUDED.
INDONESIAN PROTION OF VISIT WILL BE FOLLOWED BY GAO CON-
TACTS WITH FPC IN WASHINGTON PLUS DISCUSSIONS IN CALIFORNIA
WITH STATE REGULATORY BODIES.

3. CONVERSATIONS WITH INDONESIAN INDICATED DISTINCT
IMPATIENCE AND FRUSTRATION OVER AMOUNT OF TIME REQUIRED
TO OBTAIN FPC APPROVALS. WHEN ASKED "HOW LONG" INDONESIA
MIGHT BE PREPARED TO WAIT FOR GREEN LIGHT FROM FPC, PERTA-
MINA'S HARYONO REPLIED TERSELY THAT INDONESIA WANTED
DECISION "YESTERDAY." INVESTORS, BOTH INDONESIAN AND
FOREIGN, COULD NOT REALISTICALLY BE EXPECTED TO TIE UP
THEIR CAPITAL FOR LONG PERIODS WITHOUT GREATER DEGREE OF
CERTAINTY, HE NOTED.

4. WHILE PERTAMINA POINTED OUT THAT GOI STILL REMAINS
COMMITTED TO WEST COAST GAS SALES, OFFICIALS NOTED THAT
JAPANESE HAD ALREADY EXPRESSED "INFORMAL" INTEREST IN
PURCHASING ADDITIONAL LNG FROM ARUN IF PACIFIC LIGHTING
DEAL FELL THROUGH. (GAS FROM TRAINS ONE/THREE IS DE-
DICATED TO GROUP OF FIVE JAPANESE UTILITIES.) INDONESIANS
EXPLAINED TO GAO TEAM THAT ONE MOTIVE BEHIND SALES TO
US WAS DIVERSIFICATION OF MARKETS; I.E., TO AVOID
PUTTING ALL EGGS INTO ONE BASKET. HOWEVER, THEY MADE
POINT THAT SEPARATE SALES CONTRACTS FOR JAPAN AND US
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WERE SIGNED WITHIN MONTHS OF EACH OTHER IN 1973. FIRST
GAS DELIVERIES TO JAPAN COULD OCCUR LATER THIS YEAR FROM
BADAK PROJECT IN EAST KALIMANTAN (POSSIBLY NEXT MONTH) WHILE
US DELIVERIES WOULD NOT TAKE PLACE UNTIL 1981--ASSUMING
PFC APPROVAL THIS OCTOBER. THERE WAS LIMIT TO
THEIR PATIENCE; FOR THIS REASON, PERTAMINA HAD INSISTED
THAT ANY ADDITIONAL CONTRACT EXTENSIONS COULD ONLY BE
APPROVED BY "THE GOVERNMENT" AND NOT BY PERTAMINA.

5. ONE IMPACT OF FPC SLOWNESS TO GRANT DECISION CAN
BE MEASURED IN DRAMATIC ESCALATION OF COSTS FOR CON-
STRUCTION GAS TRAINS FOUR, FIVE AND SIX (THOSE DEDICATED
TO WEST COAST DELIVERIES). BETWEEN 1975 AND PRESENT,
PERTAMINA AND MOBIL HAVE ESTIMATED CONSTRICTION CONSTS
HAVE RISEN TRHOUGH INFLATION BY MORE THAN \$200 MILLION
BASED ON WORLD WIDE PROCUREMENT. ADDITIONAL PROBLEM
COULD ARISE LATER THIS YEAR IF LAG OCCURS BETWEEN TIME
TRAINS 1/3 NEAR COMPLETION AND WORK ON TRAINS 4/6 BEGINS.
PERTAMINA ESTIMATES DEMOBILIZATION COSTS OF ABOUT \$12
MILLION COULD BE INCURRED. INDONESIANS ALSO INDICATED
THAT FAILURE TO HAVE EARLIER APPROVAL FROM FPC PUT THEM
IN WEAKENED POSITION DURING LAST SUMMER'S FINANCIAL DIS-

CUSSIONS IN TOKYO WHEN PERTAMINA ATTEMPTED TO PERSUADE JAPANESE ASSUME GREATER PORTION OF COSTS RELATED TO COMMON FACILITIES FOR BOTH JAPANESE AND US DEALS.

6. ANOTHER ASPECT OF THIS ISSUE UNCOVERED BY GAO INVOLVES POSSIBLE LOSS OF US EXPORTS IF GAS SALE TO US IS CANCELLED. PERTAMINA/MOBIL INDICATED THAT PROCUREMENT FROM US SOURCES FOR FIRST PART OF PROJECT AMOUNTED TO 30 PERCENT OR ROUGHLY \$300 MILLION; IF JAPANESE BUYERS REPLACED US COMPANIES ON SECOND PHASE OF PROJECT, PRESUMABLY SIGNIFICANT AMOUNT OF PROCUREMENT WOULD BE LOST. PERTAMINA NOTED THAT UNCERTAINTY OVER FPC RULING HAD CAST SHADOW ON DOW PETROCHEMICAL PROJECT WHICH IS SLATED TO BE LOCATED NEARBY TO ARUN LIMITED OFFICIAL USE

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LNG PLANT. PERTAMINA HAS BEEN RELUCTANT TO GUARANTEE DOW'S ETHANE FEEDSTOCK REQUIREMENTS UNTIL STATUS OF ADDITIONAL THREE GAS TRAINS IS CLARIFIED.

7. COMMENT: DESPITE PERTAMIN'S EXPRESSIONS OF IMPATIENCE, WE FEEL INDONESIANS WOULD PROBABLY STICK WITH PACIFIC LIGHTING THROUGH SUMMER OF 1978 WHEN FIRST GAS DELIVERIES FROM ARUN TO JAPAN BEGIN. AT THAT POINT, GOI WOULD BE IN BETTER NEGOTIATING POSITION TO ENTERTAIN OFFERS FROM OTHER BUYERS FOR ARUN GAS. IT WOULD CLEARLY BE DISAPPOINTMENT TO GOI IF PL DEAL FELL THROUGH; INDONESIANS HAD LOOKED TO WEST COAST SALES AS WAY OF DIVERSIFYING MARKETTS AS WELL AS CEMENTING COMMERCIAL RELATIONS WITH US. AS REALISTS, HOWEVER, INDONESIANS WOULD TURN TO FIRST ALTERNATE BUYER IN ORDER MAXIMIZE FOREIGN EXCHANGE EARNINGS FROM THESE GAS SALES. ESTIMATED AGGREGATE NET REVENUES EXPECTED FROM ADDITIONAL CONDENSATE SALES AND LNG EXPORTS FROM TRAINS 4-6 ARE CLOSE TO \$6.0 BILLION THRU 1999. END COMMENT.
NEWSOM

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